MONETARY POLICY STATEMENT

PRESS CONFERENCE

Christine Lagarde, President of the ECB,
Luis de Guindos, Vice-President of the ECB

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Good afternoon, the Vice-President and I welcome you to our press conference.

We would like to begin by congratulating Croatia on joining the euro area on 1 January 2023. We also warmly welcome Boris Vujčić, the Governor of Hrvatska narodna banka, to the Governing Council. We will now report on the outcome of today's meeting.

The Governing Council will stay the course in raising interest rates significantly at a steady pace and in keeping them at levels that are sufficiently restrictive to ensure a timely return of inflation to our two per cent medium-term target. Accordingly, the Governing Council today decided to raise the three key ECB interest rates by 50 basis points and we expect to raise them further. In view of the underlying inflation pressures, we intend to raise interest rates by another 50 basis points at our next monetary policy meeting in March and we will then evaluate the subsequent path of our monetary policy. Keeping interest rates at restrictive levels will over time reduce inflation by dampening demand and will also guard against the risk of a persistent upward shift in inflation expectations. In any event, our future policy rate decisions will continue to be data-dependent and follow a meeting-by-meeting approach.

The Governing Council today also decided on the modalities for reducing the Eurosystem's holdings of securities under the asset purchase programme (APP). As communicated in December, the APP portfolio will decline by €15 billion per month on average from the beginning of March until the end of June 2023, and the subsequent pace of portfolio reduction will be determined over time. Partial reinvestments will be conducted broadly in line with current practice. In particular, the remaining reinvestment amounts will be allocated proportionally to the share of redemptions across each constituent programme of the APP and, under the public sector purchase programme (PSPP), to the share of redemptions of each jurisdiction and across national and supranational issuers. For our corporate bond purchases, the remaining reinvestments will be tilted more strongly towards issuers with a better climate performance. Without prejudice to our price stability objective, this approach will support the gradual decarbonisation of the Eurosystem's corporate bond holdings, in line with the goals of the Paris Agreement.

The decisions taken today are set out in a press release available on our website. The detailed modalities for reducing the APP holdings are described in a separate press release to be published at 15:45 CET.

I will now outline in more detail how we see the economy and inflation developing and will then explain our assessment of financial and monetary conditions.

Economic activity

According to Eurostat's preliminary flash estimate, the euro area economy grew by 0.1 per cent in the fourth quarter of 2022. While above the December Eurosystem staff projections, this outcome means that economic activity has slowed markedly since mid-2022 and we expect it to stay weak in the near term. Subdued global activity and high geopolitical uncertainty, especially owing to Russia's unjustified war against Ukraine and its people, continue to act as headwinds to euro area growth. Together with high inflation and tighter financing conditions, these headwinds dampen spending and production, especially in the manufacturing sector.

However, supply bottlenecks are gradually easing, the supply of gas has become more secure, firms are still working off large order backlogs and confidence is improving. Moreover, output in the services sector has been holding up, supported by continuing reopening effects and stronger demand for leisure activities. Rising wages and the recent decline in energy price inflation are also set to ease the loss of purchasing power that many people have experienced owing to high inflation. This, in turn, will support consumption. Overall, the economy has proved more resilient than expected and should recover over the coming quarters.

The unemployment rate remained at its historical low of 6.6 per cent in December 2022. However, the rate at which jobs are being created may slow and unemployment could rise over the coming quarters.

Government support measures to shield the economy from the impact of high energy prices should be temporary, targeted and tailored to preserving incentives to consume less energy. In particular, as the energy crisis becomes less acute, it is important to now start rolling these measures back promptly in line with the fall in energy prices and in a concerted manner. Any such measures falling short of these principles are likely to drive up medium-term inflationary pressures, which would call for a stronger monetary policy response. Moreover, in line with the EU's economic governance framework, fiscal policies should be oriented towards making our economy more productive and gradually bringing down high public debt. Policies to enhance the euro area's supply capacity, especially in the energy sector, can help reduce price pressures in the medium term. To that end, governments should swiftly implement their investment and structural reform plans under the Next Generation EU programme. The reform of the EU's economic governance framework should be concluded rapidly.

Inflation

According to Eurostat's flash estimate, which has been calculated using Eurostat estimates for Germany, inflation was 8.5 per cent in January. This would be 0.7 percentage points lower than the December figure, with the decline owing mainly to a renewed sharp drop in energy prices. Market-based indicators suggest that energy prices over the coming years will be significantly lower than expected at the time of our last meeting. Food price inflation edged higher to 14.1 per cent, as the past surge in the cost of energy and of other inputs for food production is still feeding through to consumer prices.

Price pressures remain strong, partly because high energy costs are spreading throughout the economy. Inflation excluding energy and food remained at 5.2 per cent in January, with inflation for non-energy industrial goods rising to 6.9 per cent and services inflation declining to 4.2 per cent. Other indicators of underlying inflation are also still high. Government measures to compensate households for high energy prices will dampen inflation in 2023 but are expected to raise inflation once they expire. At the same time, the scale of some of these measures depends on the evolution of energy prices and their expected contribution to inflation is particularly uncertain.

Although supply bottlenecks are gradually easing, their delayed effects are still pushing up goods price inflation. The same holds true for the lifting of pandemic-related restrictions: while weakening, the effect of pent-up demand is still driving up prices, especially in the services sector.

Wages are growing faster, supported by robust labour markets, with some catch-up to high inflation becoming the main theme in wage negotiations. At the same time, recent data on wage dynamics have been in line with the December Eurosystem staff projections. Most measures of longer-term inflation expectations currently stand at around two per cent, but these warrant continued monitoring.

Risk assessment

The risks to the outlook for economic growth have become more balanced. Russia’s unjustified war against Ukraine and its people continues to be a significant downside risk to the economy and could again push up the costs of energy and food. There could also be an additional drag on euro area growth if the world economy weakened more sharply than we expect. Moreover, the recovery would face obstacles if the pandemic were to re-intensify and cause renewed supply disruptions. However, the energy shock could fade away faster than anticipated and euro area companies could adapt more quickly to the challenging international environment. This would support higher growth than currently expected.

The risks to the inflation outlook have also become more balanced, especially in the near term. On the upside, existing pipeline pressures could still send retail prices higher in the near term. Moreover, a stronger than expected economic rebound in China could give a fresh boost to commodity prices and foreign demand. Domestic factors such as a persistent rise in inflation expectations above our target or higher than anticipated wage rises could drive inflation higher, also over the medium term. On the downside, the recent fall in energy prices, if it persists, may slow inflation more rapidly than expected. This downward pressure in the energy component could then also translate into weaker dynamics for underlying inflation. A further weakening of demand would also contribute to lower price pressures than currently anticipated, especially over the medium term.

Financial and monetary conditions

As we tighten monetary policy, market interest rates are rising further and credit to the private sector is becoming more expensive. Bank lending to firms has decelerated sharply over recent months. This partly stems from lower financing needs for inventories. But it also reflects weakening demand for loans to finance business investment, in the context of a steep upward move in bank lending rates and a considerable tightening in credit standards, which is also visible in our most recent bank lending survey. Household borrowing has continued to weaken as well, reflecting rising lending rates, tighter credit standards and a sharp fall in the demand for mortgages. As loan creation decelerates, money growth is also slowing rapidly, with a marked decline in its most liquid components, including overnight deposits, only partially compensated by a shift to term deposits.

Conclusion

Summing up, the Governing Council will stay the course in raising interest rates significantly at a steady pace and in keeping them at levels that are sufficiently restrictive to ensure a timely return of inflation to our two per cent medium-term target. Accordingly, we today decided to raise the three key ECB interest rates by 50 basis points and we expect to raise them further. In view of the underlying inflation pressures, we intend to raise interest rates by another 50 basis points at our next monetary policy meeting in March and we will then evaluate the subsequent path of our monetary policy. Keeping interest rates at restrictive levels will over time reduce inflation by dampening demand and will also guard against the risk of a persistent upward shift in inflation expectations. Moreover, from the beginning of March 2023, the APP portfolio will decline at a measured and predictable pace, as the Eurosystem will not reinvest all of the principal payments from maturing securities.

Our future policy rate decisions will continue to be data-dependent and determined meeting by meeting. We stand ready to adjust all of our instruments within our mandate to ensure that inflation returns to our medium-term target.

We are now ready to take your questions.

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I was wondering if you could tell us a little bit about the flavour of the debate that preceded today's decision to raise interest rates by 50 basis points in March? I'm interested in knowing whether there were any calls to commit for longer, potentially flag a less aggressive stance, or say nothing at all, given that you also say that your decisions are data-dependent. That would be my first question.

The second one, I'm interested, when you say the subsequent policy path will be decided in March, are we just talking about the pace of rate increases, or could one potential conclusion also be that you have already reached the peak in interest rates at that time?

Those are really good questions to try to explain our decision. I would just remind you that our decision is not the decision for March. We're taking a decision as of now, which is to raise all three interest rates by 50 basis points. I would characterise our good discussions with an enlarged Governing Council, given that we are now 26 around the table, I would characterise them as marked by the sign of continuity and consistency. I know that I have repeated that in the course of the monetary policy statement, and I have said it before, but the expression, 'We shall stay the course', or 'the Governing Council will stay the course', is a good way to express that double principle of continuity and consistency. Continuity, because we were very clear in December that in all reasonable scenarios significant rate increases would be needed. Would be needed for what? To bring inflation back to the 2% medium-term objective that we have in a timely manner.

We also made it clear that this would require rates to rise to sufficiently restrictive levels, and that rate increases would happen at a steady pace. So we are making that decision in that continuity that I have tried to explain. Steady pace: we increased rates by 50 basis points in December, we increased rates by 50 basis points in early February, and we intend – which is a strong word; it's not an absolute, irrevocable, unconditional commitment, but it's a strong word – we intend to raise by 50 basis points, and that is what was meant in December by this steady pace reference that you find, yet again, in the monetary policy statement. So this has been the continuity. Where we have consistency is consistency with the communication that we had back in December, and with any communication that I have expressed ever since, and it's totally consistent with the view that we reached in a very, very large consensus today, that it should be 50 this time around, it is intended to be 50 in March.

Now, you will say, 'Well, yes, but what about after March? Does that mean that you have reached the pinnacle or the peak?' No. We know that we have ground to cover. We know that we are not done. What we are saying is that, as we will receive projections, we will need to assess what rates, what level, at what pace, are needed in order to do the two things which are embedded in my expression, 'stay the course.' The first one is to raise significantly into restrictive levels and stay there for sufficiently long so that we are confident that at those rates we will actually deliver the 2% objective medium-term that we have set for ourselves, and which is delivering on our mandate. Those were the themes that we debated. I have to tell you that there was general agreement on the fact that the 50 basis points this time around and the 50 basis points in March were legitimate on the basis of, particularly in March, of the underlying inflation pressure that we know will continue. Where there was discussion and not full agreement was on the way in which we communicate it. But on the overall monetary policy statement that reflects our discussions and our decision, there was a very, very large consensus. So I hope I have addressed your two important questions.

President Lagarde, back in Davos you said doubters should revise their positions if they don't believe that you're serious about inflation, but markets are again doubting you because the reaction to this decision was for financial conditions to actually ease a bit, and expectations to come down. So what would you say to doubters today? When you just told Jana that you have 'ground to cover, 'we are not done', are we correct to interpret that more rate hikes are coming beyond March at an unspecified rate? Is that what you meant?

The second question is about the signals that you're sending. Gas prices have come down to pre-war levels; oil is down by a third since the summer; your lending data is showing the biggest lending crunch since the debt crisis; growth is at a standstill. There are lots of deflationary, or at least disinflationary, forces in the economy, so why would you set a guidance without having seen your projections, and why would you keep on providing a guidance when you said you would stop doing it? I'm trying to understand the logic of how you communicate, and why it's meeting-by-meeting one day, and then you provide a guidance the next. Sometimes it's difficult to read what the ECB intends according to the people that we speak to.

Which is why I'm trying to explain a bit better our reaction function, and I tried to do that, but I will happily try to re-explain a bit what our intention is. First of all, we are data-dependent, and we know that we are getting a projection exercise at our next March meeting, but we are also data-dependent when we look at underlying inflation elements. The underlying inflation pressure seems to be, whether you look at core, trimmed, supercore, in all sorts of dimensions, adding to which the measurement of the fiscal measures that have been put together, the wage negotiations and the wage direction that we are seeing, we have all scenarios available to decide that March actually warrants a 50 basis points increase. This is what we are saying when we say we 'intend' to, which is why the word is pretty strong.

Now, in Davos I did say that we shouldn't be doubted, and I think it was very much in relation to what we were going to do this time around, and what we were going to do in the following meeting, and I hope that by being very specific about today's decision and pretty strong in terms of intention as to what we will do in March, those who observe carefully what we do, will appreciate that we should not be doubted. Our determination to reach 2% medium-term inflation should not be doubted, and our determination to raise rates sufficiently significantly in order to move into restrictive territory should not be doubted. Nor should be doubted the fact that, once we are in restrictive territory, we will want to stay there sufficiently long so that we can be confident that those rates will give us the return to the 2% medium-term inflation objective that we have. Now, you will say, 'Is that consistent with the meeting-by-meeting approach?' Let's call a spade a spade. Meeting-by-meeting is going to be applied on the basis of data, but when we have data that is sufficiently strong, and when we are sufficiently far away from what we expect will be the appropriate rate to reach the 2%, it is completely legitimate to express an intention in a relatively forceful way. An intention is not, as I said, a 100% commitment, but it's a pretty strong determination, and I can't think of scenarios, unless they were quite extreme, where that would not happen.

I have one question on whether you're also discussing the negative side effects of your policy of raising rates substantially and very fast, especially on sectors like the real estate sector, and what it could also mean for the banks and balance sheet and consumption going forward.

Then my second question goes onto QT, quantitative tightening. Perhaps you can explain a little bit more what you think you want to achieve with it, and whether there's also discussion to accelerate it and use it as an efficient policy tool?

The occasion of this meeting was a very appropriate way to try to measure the effects and the consequences of our most recent monetary policy decisions, and it was so because we had the bank lending survey which really helps appreciate how banks themselves see the rates that they will be offering, depending on whether they offer financing to corporates or to households or for consumption purposes. It's also a good opportunity to have them assess for us in that survey whether they are going to tighten terms and conditions or not. The final point that we draw from those bank lending surveys, that I'm sure you had a chance to look at as well, is how they see the risk assessment proceed and develop as the situation evolves. I would say that all that we are seeing, which is a tightening of the financing terms and conditions, higher rates across the various sectors of lending, is actually good transmission of our monetary policy. It's not the entire transmission, because by the time investment is possibly reduced, financing is more expensive, impacts will channel through into the real economy, but we can tell that there is transmission of those rates already.

That was part of the propositions that we had, obviously. We are hearing the banks, and we have good dialogues with the banks on impacts that all our measures have. Our measures have impact on interest rates, as well, in a different direction. We are attentive to that, and, of course, we are attentive to financial stability, and this is something that comes into the decision-making process that we follow. But our objective is to reduce inflation. Not just to reduce inflation; to drive it down to 2% in the medium-term. So there will be consequences. There will be secondary effects, as far as banks are concerned, inevitably.

Now, you asked me also about what I would call the balance sheet normalisation, and I would preface that with the fact that in the current circumstances our main tool is, of course, the interest rates, and the balance sheet normalisation is helping us to normalise the process, but it's not the main instrument. It's, obviously, part of the accessory instruments, if you will, that come to supplement the interest rate policy that we have. I think the approach that we have taken was also telegraphed back in December, when I said in this room that it would be predictable and measured, and I did mention the 15 billion monthly over a period of four months from March to the end of June. That's what we're doing, so yet again, continuity, consistency in that partial reinvestment of the APP portfolio. And I think we are adding two principles that will matter, which is simplicity and neutrality, so that we don't do things in an awfully complicated manner, and we simply apply the proportionality principle to the portfolio across jurisdictions.

Could you say it was a compromise between governors to decide – nearly decide – three acts of 50 BPs in a row from December to March? Does regularity matter to you, and does that mean it could continue at this pace in May?

A second question. In many sectors, company and institutional, as well as employees, are asking for salary increases. What's your message about that, and at what point do these increases become dangerous with the risk of entrenching inflation?

Any decision is the fruit of a compromise, and the beauty of the Governing Council is that all governors are passionate about the rationale, the analysis, the hard econometric work that is behind what we do. And some take particular views; others, other views. They come to these meetings informed by their staff and by the work that they have done at home, within the Eurosystem, but in the national central banks. The beauty of the exercise, for me, is to see how they can coalesce towards solutions that are recommended by our chief economist, Philip Lane, that I fully support, and that, inevitably, have elements of compromise about them. So, compromise is the rule of the game, which does not weaken the fact that we're riveted to the mandate, and that we know that we have to stay the course, because we are not done.

Your second question had to do with the wages, and it's a truly important aspect of inflation. It's a component that plays a critical role in the service sector in particular, which is far more labour-intensive, and where we are looking and scrutinising evolutions, both in terms of negotiated wages at the collective level, through unions and manufacturers' associations. But we are also trying to really dissect as much as we can, and we have built, as you know, a special wage tracker that now includes seven countries of the 20 members of the euro area. So, critically important, and we know that there is an element of catch-up that is at play now, because, obviously, most recent numbers were high. Headline inflation numbers matter a lot. The fact that it went down – well, at least preliminarily until we have the German numbers – that it went down to 8.5%, in respect of those anticipations by unions or by workers, is better, in a sense, but it's a critical component that we will be looking at extremely carefully.

I think it's important – I know it's easier said than done – but it's important in those discussions and negotiations that there is a forward-looking approach to what inflation will be, and how soon we will return it back to 2% in order to really appreciate the trend of wages that are discussed between the parties.

Could I perhaps ask you to talk a little more about which elements of current inflation developments you're most concerned by, and how that differs from the economic environment at the moment in the US?

What are we particularly attentive to in terms of inflation development? Now, obviously, we have to look at energy, because energy has been a key driver when inflation went up massively, and went far too high. It is still far too high, by the way. So, we have to look at energy costs, because it might transmit – and at which pace we don't know and we will be observing that very carefully – into underlying inflation elements. We are looking, as I just said to your colleague, very carefully at wages. Wages will be a significant component of inflation pressure in the months to come. We are looking at fiscal measures. And on the fiscal front we have seen a lot of measures that were decided in part of the 2023 budgets of euro area members. Some of them are going to try to recalibrate; others might not. We had an excellent discussion with Paschal Donohoe, the President of the Eurogroup, yesterday. He came and participated in our discussion yesterday afternoon, and we had dinner together. It was a very good opportunity to appreciate how the Eurogroup at finance ministers' level is going to look at the fiscal measures, is going to look at recommending recalibration, in order to make sure that fiscal support will be adjusted to the lower energy prices, which we do not see at the moment yet. I would say that those are the key components.

What shall I say on the international front? Because I think that you raised a comparison with the US – I'm not going to compare with the US necessarily, but I need to bring into our consideration the international environment. The consequences of the Chinese authorities' decision in December to do away with zero-COVID, to reopen the economy come what may, are going to come with consequences. Consequences on demand, consequences on demand addressed to the rest of the world, consequences on exports, but also consequences on the price of commodities. If you start looking at the price of metals, in particular, there has already been an anticipation of how commodities are going to rise as a result of the Chinese reopening. So, there will be inflationary, disinflationary forces, the exact detail of which I believe I will be able to say a bit more at our next March meeting, because we will be looking into that in the next few weeks, but that's also a country the role of which we will be looking at very carefully.

I know you just said you're not going to compare with the US, but Powell said yesterday that the economy's disinflationary process has started. How far is Europe from being able to say the same?

Another question. You said that increasing inflation rate is primarily related to energy, so does this mean that the decrease is not due to the actions of the ECB? Do you expect that 2% in the medium-term, and what is exactly the medium-term?

Far from me to say that monetary policy is not potent and efficient. I think that what we are seeing in our bank lending survey, and the cost of financing in particular, is clearly an indication that there is transmission of our monetary policy and our interest rate hikes decision clearly. So that is definitely working. But it's also true that a large portion of that too-high inflation was attributable to the supply shock provoked by very high energy prices, and one that we did not really capture so well, which was gas prices and the impact it had on electricity costs. So, we have to be attentive to those energy components, and we have to be attentive to the pace of transmission, and the pass-through of those costs into other inflation components. But I would certainly not say that the disinflationary process at large and without qualification is already in play. When I look at core inflation, which is, by far, not the only component that we look at – we look at many more of those – but when I look at core inflation, we were at 5% in November, moved up to 5.2% in December, stayed at 5.2%, and this is the highest that core inflation has been in our part of the world.

So it's true that headline inflation has gone down, and more so than we had expected, and that many had expected. But underlying inflation pressure is there, alive and kicking, which is why we are committing as we are – intending as we intend – in this monetary policy statement, and this is why I say that we have more ground to cover and we are not done.

In your statement you described the risks to the inflation outlook as balanced.

No, I said more balanced.

More balanced compared to December. Could you say something about how important that is for the future rate path?

My second question also relates to that. Was that controversial within the Council? Were there different views about that?

I think the whole paragraph that you have in the monetary policy statement on risk assessment – and I'm not going to offend you by reading it to you, because I know that you have it – but it really focuses on, in which way is this risk assessment more balanced? Not balanced. We don't think that there is symmetry of risk, but it is more balanced than it was back in December, for sure. It lists the various points that are upside risk, downside risk, on both account, on activity and inflation. Because my governors around the table of the Governing Council are genuinely interested in analysing, understanding and coming to as well-based conclusions as is possible, there was not a lot of discussion on that particular paragraph. It was a rather consensual assessment of the more balanced risk at this point in time. We will, obviously, re-evaluate and assess again at the March meeting.

One question is about the BLS survey, and is about the credit crunch risks in the medium-term. Do you see that?

The second one is about the TPI, the Transmission Protection Instrument, that you mentioned in the statement. In this case, do you see any risks of market turmoil in the bond market?

On the bank lending survey, as I said to one of your colleagues, we draw a lot of conclusions, learning, understanding of how our monetary policy, and particularly the interest rate policy that we have developed ever since July, is actually transmitted via the banks to corporates and to households, and to consumption loans as well. We believe that this impact is, in a way, efficient and necessary, given what we are trying to do in order to reduce inflation and bring it back to 2%. The Transmission Protection Instrument that was put in place, just to refresh our memory, because that goes back to July, was intended to protect the transmission throughout the entire euro area, and it is available, it is there, it will be used if necessary. It is not the first line of defence. As you know, we have flexible reinvestment under the PEPP as the first line of defence, if we were to see that transmission being impaired for non-legitimate reasons, but it is there, and it is available. We don't see a need to use it at the moment, but should it be needed, we will indeed use it.

Investors and the financial markets expect that the ECB will finish raising interest rates in coming April, for example, by their meetings in May. So, as you mentioned, I know well, so it depends on the coming data, but do you think such expectations are correct or wrong?

I'll go back to what we intend to do, or what we actually shall do, not intend to do. We shall return inflation to 2% in the medium-term, in a timely manner, and we know that to do that we need to move into restrictive territory, into restrictive levels. We know that rates are the best tool in order to do so, so we will use interest rate hikes in order to get to those levels. As I said, we are certainly not there now, nor will we be in March, given that we will rely on underlying inflation indicators and pressure that we see very, very clearly nowadays. What will happen next, as I said earlier on, is going to be a factor of how much more ground we need to cover, and there will be ground to cover most likely, but it will be data-dependent. We will look at all components, and it will depend on the interest rates, where we are then, and where we believe we need to be in order to deliver on our commitment, but that will not be enough. We will have to stay there.

So it's moving into restrictive territory, because we know that's needed, given the elements that we have, but it's staying there so that we are confident that we don't touch the 2% for a few weeks, a few months, but that we have confidence that we will stay at target. I hope that satisfies your question. I'm tempted to ask you a question, because we've been debating as to when the Governor the Central Bank of Japan, my good friend, Mr Kuroda, will have to step down, and there was big discussion internally in the house as to when it was, but you will tell me later.

In December you said that the ECB was going to raise rates 50 in February, possibly 50 in March, and possibly in May. How is May seen now, because I don't know if it's less possible than it was in December?

Also, on bonds, I would like to ask you, ESG bonds are constantly linked with greenwashing, how will the ECB manage the increased reputational risk implied by tilting bond purchases toward issuers with a better climate performance?

I think in December we mentioned 'significant', we mentioned 'steady pace'. 'In a steady manner', I think that's what we had used. I said later on that our determination should not be doubted. It was 15 December, in February we're doing it, and we intend – which is strong, as I said earlier on – to do 50 basis points, based on the underlying inflation pressures that we see, anticipate, and that are not going to go away. I'm not suggesting that it will be steady pace for an ongoing basis. What we are saying here in this monetary policy statement is that we will assess the situation, evaluate our monetary policy path, on the basis of our projections. It might be 50, it might be 25, it might be whatever is needed, whatever rate is needed – I should say whatever rates are needed – we have three – and at whichever pace, in order to deliver on our 2% inflation target in the medium-term, that we want to reach in a timely manner, and we are far away from that. Inflation is still far too high today, in particular when we look at underlying inflation components.

Are we at risk of greenwashing? As determined as I've always been – and you know me, it's been more than three years now – so as determined as I am to deliver on our strategy review and the action plan that we have all agreed around the table of the Governing Council, to deliver in alignment with the Paris Agreement, equally we have to manage risk. Managing risk, to me, is having as clear, as distinguished, as transparent information and disclosure as possible, a good understanding of the transition plan by the corporates that we eventually reinvest into, and a good understanding of the footprint that they have. It will be on the basis of that analysis, our own, and also reliable analysis that will be provided by experts that we will orientate our portfolio with a stronger tilting than we had so far. But we will be very attentive, because we should not be accomplice to greenwashing, and it's a risk-management principle that we have to comply with.

I'd like to come back to the fiscal message, the message you want to send to government. You said they should recalibrate. Is it really the right time to pull the plug when food inflation is at 14%, and energy prices are indeed going down, but are still hurting a lot of households?

The second question: do you believe your course of action is, basically, in line with a soft landing? Because growth is, basically, zero already, inflation is going down, and the hikes that you've put through will take months to really go through the economy, so is there a danger to go too far, or does it look like a soft landing to you?

Great questions. On your first one concerning fiscal, I just want, for everybody's good understanding, because it's a sentence that we discussed quite extensively this morning – it's in the section on economic activity. That's in relation to government support that will shield the economy from the impact of high energy prices. Then we say, 'In particular, as the energy crisis becomes less acute, it is important to now start rolling these measures back promptly, in line with the fall in energy prices and in a concerted manner.' So, it's not asking governments to stop now, but they clearly have to align their fiscal support with the energy price impact at retail level when it comes to supporting consumers, and at corporate level, whenever it hits corporates. But many of these measures were decided in the course of the budgetary cycle, which starts in the summer, it's active work in September, voted in December, and the measures apply throughout the whole of 2023. If that recalibration does not happen, for those measures that were not subject to variation of energy prices, and therefore would automatically adjust, then the other measures should be thought through and reconsidered. Not with a view to remove the shields, but simply taking note of the fact that the shield is not as badly needed as it was. That's our advocacy to governments, and it's something that we discussed with the President of the Eurogroup yesterday in particular.

On the monetary policy decisions that we are making: as I said, we are riveted to staying the course, to move into restrictive territory sufficiently, and for long enough so that we are confident that we return inflation to 2%. There is some good news, because growth, which was expected to be negative in the fourth quarter of 2022, is eventually slightly positive. Now, we Europeans always beat our chest and we're going to say, 'Well, if you take this out and this out and this out, it's not so positive.' I think we should celebrate that we are not in negative territory on the growth front. Headline is going down, which I think is going to be important, and in particular for the wage negotiations that will be coming up, but we still have underlying inflation factors that are strong, solid, and are not budging. So we need to do our job. We need to deliver on our mission.

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European Central Bank

Directorate General Communications

- Sonnemannstrasse 20
- 60314 Frankfurt am Main, Germany
- +49 69 1344 7455
- media@ecb.europa.eu

Media contacts